

# **EXHIBIT B**

## **FUEL MANAGEMENT PROTOCOLS**

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Certain of the Contracts listed on Schedule 1 of this Agreement provide DWR the option of either (i) letting the Supplier provide the necessary natural gas for its generating units at an index-based price or agreed upon fixed price or (ii) DWR procuring the gas supply and causing such supply to be delivered to the Supplier under a tolling arrangement (“Fuel Option”). Certain of the Contracts with Fuel Option provide that DWR can decide on a monthly basis whether to procure the gas and others provide that the decision be made annually or semi-annually when DWR reviews the Supplier’s proposed fuel plan.

The purpose of this Exhibit B is to describe the relationship which will exist between DWR and Utility and the specific responsibilities of each as they all relate to managing the natural gas provisions of the Contracts which include Fuel Options. Specifically, this Exhibit B will address responsibilities for the following activities: (i) determining types and lengths of gas contracts, (ii) nominating deliveries, (iii) contracting for gas transportation and storage, (iv) managing imbalances, (v) reviewing, authorizing and making payment of gas invoices and (vi) determining and implementing hedge strategies, as appropriate.

The Commission’s role, including veto rights with respect to Utility Gas Supply Plans, will be the subject of an inter-agency agreement between DWR and the Commission.

**I. Operating Relationship Between DWR and Utility**

While DWR will retain legal and financial responsibility for gas and related services, Utility shall, as a limited agent acting for DWR, perform the administrative and operational activities, as further specified below, required to ensure adequate gas is supplied to Suppliers’ generating units, consistent with the tolling provisions included in the Contracts. The intent of this relationship is to provide Utility sufficient flexibility and authority to execute normal day-to-day activities associated with managing the fuel provisions of tolling Contracts and procurement of natural gas, as a limited agent acting on behalf of DWR, and related services without direct involvement by DWR but in a manner consistent with Utility Gas Supply Plans which have been reviewed and approved by DWR.

**II. Fuel Activities**

Consistent with the terms of the Contracts with Fuel Options, Utility shall have administrative and operational authority to act, as a limited agent, for fuel supply related activities, consistent with the following goals and guidelines whenever Utility has recommended, and DWR has reviewed and approved such recommendation that gas for a Contract with Fuel Option be caused to be supplied by Utility from a list of approved providers.

1. Utility shall use reasonable commercial efforts to secure delivery of gas in a reliable manner and consistent with gas requirements for producing scheduled energy.
2. Utility shall develop a portfolio of gas supply for DWR Contracts that contain Fuel Options and where Utility is to supply gas, acting as limited agent on behalf of DWR consistent with the approved Utility Gas Supply Plan. Such portfolio should be diversified in terms of price mechanism, period of performance, and gas suppliers.
3. Utility shall develop a portfolio of supply which is reasonably priced relative to the market and in accordance with a Utility Gas Supply Plan, which has been reviewed and approved by DWR.

### **III. Review of Supplier Fuel Plans**

In accordance with the terms of each of the Contracts with Fuel Options, Utility, acting as a limited agent on behalf of DWR, shall review each fuel plan prepared and submitted by the Supplier, and forwarded to the Utility by DWR, and determine whether to recommend (i) approval of the Supplier Fuel Plan and authorization for the Supplier to provide gas to its generating unit(s), or (ii) procurement and management of gas supplies to the generating unit(s) by Utility, acting as a limited agent on behalf of DWR. Utility shall advise DWR on a timely basis of its recommendation regarding responsibility for supplying natural gas. DWR shall, on a timely basis, review Utility's recommendation and either approve or identify requested changes. Once approved, Utility shall advise the Supplier in accordance with the time requirements included in the appropriate Contract with Fuel Option. In addition, for any Supplier Fuel Plans which have been implemented and are operative as of the Effective Date, and where DWR has previously elected to be responsible for gas supply, Utility may advise DWR that it would rather have Supplier provide the gas as of the Effective Date. DWR shall coordinate with Utility and Supplier to revise such Fuel Plans, to the extent possible, prior to the Effective Date.

### **IV. Fuel Procurement Strategies**

Under the Contracts with Fuel Option, upon Utility's recommendation, and DWR's review and approval of such recommendation, Utility will be responsible for procuring the natural gas fuel from a list of approved gas providers. Utility shall, acting as the limited agent of DWR, have administrative and operational responsibility for determining its gas procurement strategies, including but not limited to (i) types of contracts, (ii) length of contracts, (iii) pricing terms, (iv) use of storage, (v) types of gas transportation, (vi) delivery point(s), (vii) whether and how to obtain gas price forecasts, (viii) if and what risk management tools are to be used, and (ix) how to maintain current market intelligence.

Utility shall consolidate these strategies and submit them to DWR and the Commission as a “Utility Gas Supply Plan” on a semi-annual basis. DWR will review and approve the Utility Gas Supply Plan. Once approved, Utility may act within that Utility Gas Supply Plan without further DWR involvement, except as provided below.

#### **V. Gas Purchasing**

Utility and DWR shall jointly determine a list of approved gas providers who can be used to supply gas under the Contracts with Fuel Options. Master agreements intended to cover normal day-to-day volumes will then be executed with such approved providers. While DWR will be the executing party under all DWR gas contracts, such agreements shall specifically authorize Utility to act for and on behalf of DWR, as a limited agent in negotiating specific prices, quantities and delivery periods for specific purchases under such master agreements; *provided, however*, on the earliest practicable date after the execution of this Agreement, DWR agrees to provide to Utility in writing and in advance of such negotiations any limits, including without limitation any terms, that may be required by DWR. If Utility determines it would be beneficial to enter into any DWR Gas Contract, which exceeds 3 months or have a total value exceeding \$10 million, it shall negotiate such agreement(s) and submit them to DWR for advance approval and execution.

#### **VI. Gas Transportation**

Utility shall have responsibility for recommending to DWR which pipelines should transport gas if Utility, acting as a limited agent on behalf of DWR is to supply gas under a Contract with Fuel Option. Following DWR approval or revision of Utility Gas Supply Plan, Utility shall negotiate firm and/or interruptible agreements with such pipelines, consistent with the Utility Gas Supply Plan and submit them to DWR for execution. While DWR will be the executing party, such agreements with pipelines shall specifically authorize Utility to act for and on behalf of DWR in nominating gas deliveries, making imbalance trades and managing gas volumes transported under such agreements *provided, however*, on the earliest practicable date after the execution of this Agreement, DWR agrees to provide to Utility in writing and in advance of such negotiations any limits, including without limitation any terms, that may be required by DWR.

#### **VII. Gas Scheduling**

If permitted under the Allocated Contracts, the Utility shall have full administrative and operational responsibility for scheduling gas deliveries, whether to a specific generating plant or to storage for all gas contracts entered into by DWR or by Utility on DWR’s behalf pursuant to this Exhibit B. This

function includes use of interstate and intrastate gas pipeline provider websites, confirming via telephone, and all other activities required to move gas from the designated delivery point, as determined by the Utility, to its destination, as determined by the Utility.

#### **VIII. Storage Capacity, Injections and Withdrawals**

Utility shall have responsibility for devising plans for gas storage, if Utility, acting as limited agent on behalf of DWR, is to supply gas under Contracts with Fuel Option from a list of approved providers. Following DWR approval or revision of such recommendation, Utility shall negotiate firm and/or interruptible agreements with such storage service providers and submit them to DWR for execution. While DWR will be the executing party with DWR remaining the principal under such contracts, such agreements with storage service providers shall specifically authorize Utility to act for and on behalf of DWR in nominating gas injections and withdrawals under such agreements; *provided, however*, on the earliest practicable date after the execution of this Agreement, DWR agrees to provide to Utility in writing and in advance of such negotiations any limits, including without limitation any terms, that may be required by DWR.

#### **IX. Managing Gas Delivery/Usage Imbalances**

For gas that it purchases and transports on behalf of DWR, Utility shall have full administrative and operational responsibility for monitoring and managing the daily status of gas usage vs. gas deliveries (i.e. gas imbalances). In addition, to the extent that gas transportation providers issue operational flow orders or require adjustments in scheduled gas deliveries due to system constraints, Utility, as limited agent on behalf of DWR, shall be responsible for compliance with such orders. Utility shall also be responsible for any penalties imposed by gas transportation providers for imbalances caused by Utility, due to its failure to exercise prudent gas management practices.

#### **X. Invoice Review, Approval and Payment**

For natural gas, pipeline transportation and storage services it purchases in accordance with this Exhibit B, Utility, acting as limited agent on behalf of DWR shall have responsibility for receiving invoices from gas, transportation and storage suppliers, reviewing them for accuracy, approving/rejecting invoices for payment and forwarding to DWR for payment; *provided, however*, on the earliest practicable date after the execution of this Agreement, DWR agrees to cause Utility to be authorized to receive such information from Suppliers. Utility shall provide DWR sufficient documentation to verify payment of the invoices.

**XI. Forecasting**

Utility shall be responsible for all gas price, demand and supply forecasts which Utility believes are consistent with any accepted gas supply responsibilities.

**XII. Risk Management**

From time to time, Utility shall advise DWR regarding the hedging of DWR Fuel Supply costs. Final decisions relating to the use or non-use of financial tools such as futures, options and swaps to hedge future gas price exposure on any gas volumes not hedged by Utility under the Utility Gas Supply Plans shall be made and implemented by DWR. Any such contracts executed by DWR will be provided to Utility so that Utility can determine the effective cost of gas for use in making dispatch decisions on “plant-specific” basis.

**XIII. Market Intelligence**

Any and all efforts to obtain, analyze and utilize market intelligence for Utility decision-making purposes shall be the responsibility of Utility.

**XIV. Payment of Gas Costs**

For natural gas, pipeline transportation, financial hedges and storage services that are purchased and provided by a Supplier under an approved Fuel Supply Plan, DWR shall pay such gas related costs as part of the invoice for commodity, product or services submitted by the Supplier. For natural gas, pipeline transportation and storage services provided under DWR contracts and administered by Utility on behalf of DWR, DWR shall pay invoices after they have been reviewed and approved for payment by Utility.

**XV. Allocation of Existing DWR Gas Contracts**

DWR has entered into gas supply, transportation and storage contracts as provided in Attachment 1 to this Exhibit B that have expiration dates after the Effective Date of this Agreement. The administrative and operational control of the contracts listed on Attachment 1 of this Exhibit B will become the responsibility of Utility. This shall include (i) scheduling gas transportation, (ii) confirming gas deliveries, (iii) nominating gas withdrawals from and injections into storage, if applicable, (iv) and reviewing and approving invoices for payment. When approved, invoices shall be transmitted to DWR for payment within 10 days of receipt of invoice from the gas supplier, gas storage or gas transportation provider.

**XVI. Pre-existing Financial Hedge Instruments**

If DWR has entered into any financial hedge transactions that will remain operable after the Effective Date of this Agreement, DWR shall retain full administrative and operational control over such transactions.

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## Attachment 1

Existing DWR Gas Purchase, Storage and Transportation Contracts

(San Diego Gas &amp; Electric Company)

<b>Counterparty</b>	<b>Type</b>	<b>Product</b>	<b>1.1. Term</b>
Southern California Gas Company	Storage Service Agreement	* Storage Services Inventory - 750,000 Dth Injection - 15,000 Dth/day Withdrawal - 30,000/Dth/day	Apr. 1, 2002 thru Mar. 31, 2003

*\*To be split evenly between SCE and SDG&E. Estimated balance in storage account 1/1/03 = 140,000 Dth.*